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Memorandum of Understanding with Respect to the Handling of  
Certificates of Indemnity Representing Cotton, Issued by the  
Federal Crop Insurance Corporation and Pledged as Security  
for Loans from the Commodity Credit Corporation

The following plan shall be adopted with respect to certificates of indemnity representing cotton pledged as security for loans from the Commodity Credit Corporation:

1. Payment of Indemnities

The Federal Crop Insurance Corporation will issue certificates of indemnity payable to insured producers in settlement of claims for indemnities. Each such certificate will show the weight in pounds of indemnity, the grade and staple of the cotton, and the location at which the indemnity is due.

2. Loan on Certificates

The Commodity Credit Corporation will make loans to eligible producers on cotton represented by certificates of indemnity, on the same basis that loans would be made on cotton of the grade and staple set forth on the certificates and at the location stated in the certificates. The Commodity Credit Corporation will promptly inform the Federal Crop Insurance Corporation of those loans made by it for which certificates of indemnity are pledged as security. The Commodity Credit Corporation will not make a loan on cotton represented by a certificate of indemnity covering a weight of less than 400 pounds of cotton.

Subsequent to the issuance of the certificate of indemnity, if the insured desires to obtain a loan from the Commodity Credit Corporation and is otherwise eligible, he shall execute loan documents prepared by the county committee in accordance with instructions issued by the Commodity Credit Corporation. The county committee will not approve such loan documents if there is in effect an outstanding collateral assignment with respect to the insurance contract under which the certificate of indemnity was issued.

3. Liquidation of Loans Secured by Certificates of Indemnities

Liquidation by Insured

If at any time during the period of the loan the insured wishes the cash equivalent of the certificate of indemnity established in order to liquidate the loan, he shall submit a written request to the Federal Crop Insurance Corporation to establish such cash equivalent for the purpose of liquidating the loan. Such cash



equivalent will be established on the basis of the price in effect on the date the request is received by the Federal Crop Insurance Corporation. If the cash equivalent is sufficient to liquidate the loan and the charges in connection therewith, the Commodity Credit Corporation will surrender the certificates of indemnity, pledged as security for the loan. The Federal Crop Insurance Corporation will make payment direct to the Commodity Credit Corporation of the amount due it and any remaining balance will be paid to the insured.

#### Liquidation by Commodity Credit Corporation

If the Commodity Credit Corporation desires to liquidate a loan by receipt of a cash payment, it shall notify the Federal Crop Insurance Corporation of the amount necessary to liquidate the loan. The Federal Crop Insurance Corporation will establish the cash equivalent of the certificate of indemnity on the basis of the price in effect on the date that such notice is received from the Commodity Credit Corporation. Upon surrender of the certificate of indemnity, payment will be made to the Commodity Credit Corporation to the extent of the cash equivalent or the amount necessary to liquidate the loan, whichever is smaller. Any remaining balance will be paid direct to the insured.

In the event the Commodity Credit Corporation desires to obtain the delivery of cotton in liquidation of a loan, it shall notify the Federal Crop Insurance Corporation of such fact. Upon surrender of the certificate of indemnity, the Federal Crop Insurance Corporation will deliver the quantity of cotton specified in the certificate of indemnity to the Commodity Credit Corporation. The cotton delivered to the Commodity Credit Corporation may be of grade and staple and at locations other than those specified in the certificate of indemnity.

#### 4. Adjustment for Cotton Delivered

When cotton is delivered to the Commodity Credit Corporation in lieu of payment in cash, an adjustment will be made between the two Corporations for any difference between the value of the cotton described in the certificate of indemnity and the value of the cotton delivered. The prices used in establishing the values of cotton will be determined by agreement between representatives of the two Corporations on the basis of the Production and Marketing Administration published quotations for the designated spot market on the date the request for delivery is received by the Federal Crop Insurance Corporation. In making adjustment for cotton delivered, the Commodity Credit Corporation shall pay to



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the Federal Crop Insurance Corporation storage charges on the cotton delivered at the rate of two-thirds of a cent per day per bale (500 pounds of lint) for the period elapsing between the date of issuance of the certificate of indemnity, or August 1, 1945, whichever is later, and the date used in establishing prices as set forth above.

This method of handling certificates of indemnity representing cotton, pledged as security for loans from the Commodity Credit Corporation, shall become operative upon the approval by the Board of Directors of the two Corporations and the Secretary of Agriculture.

APPROVED:

APPROVED:

Federal Crop Insurance Corporation

Commodity Credit Corporation

                      
Date

                      
Date

APPROVED:

Secretary of Agriculture

                      
Date



